

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03
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FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 0179
INFO AMEMBASSY BONN
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE

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FOR USEEC, PARIS ALSO FOR USOEC

E.O. 11652: N/A
TAGS: ECON, EFIN, BE
SUBJECT: THE NEW GOVERNMENT'S ECONOMIC PROGRAM:
FIRST IMPRESSIONS

1. SUMMARY. FROM WHAT WE KNOW SO FAR, ECONOMIC POLICY
UNDER "TINDEMANS II" WILL CONTINUE WITH A PREDOMINANTLY
SOCIAL CHRISTIAN ORIENTATION. AS SUCH, WE FORESEE LITTLE
CHANCE THAT THE CHANGE ITSELF WILL BEAR ON IMPORTANT U.S.
ECONOMIC INTERESTS. SOCIALIST INFLUENCE WILL BE MOST
EVIDENT IN UNEMPLOYMENT POLICY, INCLUDING MORE PRESSURE
FOR FISCAL STIMULUS OF THE ECONOMY, AND A GREATER WILLING-
NESS TO INTERVENE IN KEY SECTORS. STRAINS IN THE COALI-

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TION WILL PROBABLY BEGIN TO APPEAR EARLY, WITH FORMULATION
OF THE 1978 BUDGET FIRST ON THE AGENDA FOR THIS SUMMER.
SOME RELIEF OF COST PRESSURES ON BUSINESS, INCLUDING
FOREIGN INVESTORS, APPEARS TO BE A HIGH-PRIORITY OBJECTIVE,
AT LEAST FOR THE MOMENT. END SUMMARY.

2. JUDGING FROM ITS PUBLIC PROGRAM (SEE BRUSSELS 5495 AND

5762) AND DISTRIBUTION OF MINISTERIAL PORTFOLIOS, ECONOMIC POLICY UNDER THE NEW COALITION WILL BE GENERALLY SIMILAR TO THAT OF ITS PREDECESSOR. THE PROGRAM ESSENTIALLY REITERATES THE SOCIAL CHRISTIAN APPROACH TO ATTACKING UNEMPLOYMENT AND INFLATION THROUGH MEASURES TO INDUCE IMPROVED PRODUCTIVITY AND RESTRUCTURING OF BELGIUM'S INDUSTRIAL BASE. SOCIALIST INFLUENCE IS EVIDENT IN THE PROGRAM'S HEIGHTENED CONCERN WITH GETTING THE UNEMPLOYED BACK TO WORK--BUT THE MEANS AT HAND TO DO SO WILL BE MEAGER, GIVEN THE CURRENT BUDGET SITUATION. THE SOCIALISTS' MAIN MARK MAY RATHER BE IN THE MEDIUM TERM AS, UNDER THEIR PRODDING, THE GOVERNMENT ASSUMES A MORE INTERVENTIONIST ROLE IN CONTROLLING AND DIRECTING THE GENERAL ECONOMY. INTERNATIONALLY, THE COALITION PROGRAM MAKES ALL THE RIGHT NOISES ABOUT TRADE, FINANCE, AND NORTH-SOUTH. WE FORESEE LITTLE LIKELIHOOD OF POLICY CHANGES AS A RESULT OF THE NEW COALITION'S ENTRY WHICH WOULD AFFECT IMPORTANT U.S. ECONOMIC INTERESTS.

3. FOR THE SHORT TERM, THE PRINCIPAL ECONOMIC EFFECT OF THE GOVERNMENTAL CHANGE IS LIKELY TO BE A SOMEWHAT LARGER 1977 BUDGET DEFICIT THAN MIGHT HAVE OTHERWISE BEEN THE CASE. IN IMPOSING THE DEPRESSIVE VAT INCREASES IN LAST FEBRUARY'S EGMONT PLAN, THE FIRST TINDEMANS GOVERNMENT GAVE THE BUDGET DEFICIT PRIORITY OVER SHORT-RUN RECOVERY. BY CONTRAST, THE NEW COALITION PROGRAM HAS RULED OUT FURTHER TAX INCREASES THIS YEAR AND REJECTS "RIGOROUS" BUDGET BALANCING IN CURRENT CYCLICAL CONDITIONS. THE 1977 OPERATING BUDGET DEFICIT COULD BE ANYWHERE BETWEEN BF 50- LIMITED OFFICIAL USE

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70 BILLION, DEPENDING ON THE PACE OF RECOVERY LATER THIS YEAR AND ON ANY SUCCESS THE SOCIALISTS HAVE AT COMMITTING THE GOVERNMENT TO PAY FOR EMERGENCY JOB-CREATING MEASURES IN THE NEXT FEW MONTHS. COUNTING THE BOND-FINANCED INVESTMENT BUDGET AND OTHER SEMI-OFFICIAL PROGRAMS, TOTAL FINANCING REQUIREMENTS ON THE LOCAL MONEY MARKET THIS YEAR WILL PROBABLY BE EQUIVALENT TO 8-9 PERCENT OF PROJECTED GNP. THIS MAY EXERT SOME UPWARD PRESSURE ON INTEREST RATES AND PRICE LEVELS; THERE IS, HOWEVER, NO SIGN OF IMMINENT DANGER TO THE BALANCE OF PAYMENTS CURRENT ACCOUNT, WHICH CONTINUES TO HANG AROUND EQUILIBRIUM.

4. THE NEW GOVERNMENT'S FIRST AND MOST PRESSING JOB IS TO PUT TOGETHER THE 1978 BUDGET FOR PRESENTATION TO PARLIAMENT THIS FALL. THIS WILL BE AN EXTREMELY DIFFICULT TASK. THERE ARE BOUND TO BE STRONG PRESSURES WITHIN THE COALITION FOR BOTH MORE EXPANSIONARY FISCAL POLICY AND TAX RELIEF FOR BUSINESS, PARTICULARLY IF GENERAL EC ECONOMIC ACTIVITY REMAINS SLUGGISH. ON THE OTHER HAND, THE NEW

MINISTER OF FINANCE, GASTON GEENS, AND HIS SUCCESSOR AS BUDGET MINISTER, MARK EYSKENS, ARE BOTH ABLE YOUNG CVP ECONOMISTS, CLOSE TO TINDEMANS, WHO ARE CERTAIN TO HOLD THE PURSE STRINGS TIGHTLY AND TAKE VERY SERIOUSLY THE GOVERNMENT'S COMMITMENT TO FISCAL REFORM OVER THE NEXT FIVE YEARS.

5. THE NEW COALITION WILL, IN ECONOMIC TERMS, BE MORE INTERVENTIONIST THAN ITS PREDECESSOR. THE SEMI-OFFICIAL SOCIETE NATIONALE D'INVESTISSEMENT (SNI) WILL HAVE MORE SCOPE TO BUY INTO AND/OR ASSIST PRIVATE FIRMS IN DIFFICULTY. THE 1976-80 PLAN IS TO BE UPDATED, WITH MORE EMPHASIS ON "CONTRACTUAL" ARRANGEMENTS WITH THE PRIVATE

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FOR USEEC, PARIS ALSO FOR USOEC

SECTOR TO SAFEGUARD EMPLOYMENT. A NATIONAL ENERGY POLICY WILL BE PRESENTED TO PARLIAMENT BY THE END OF THIS YEAR, BASED ON GREATER PUBLIC OWNERSHIP AND CONTROL OF THE LOCAL POWER AND FUEL INDUSTRY (AN ORIENTATION ALREADY PRESENT IN DRAFT PLANS OF THE LAST GOVERNMENT). A GOVERNMENT DELEGATE WILL HENCEFORTH SIT ON THE BOARD OF DIRECTORS OF

EACH OF THE COUNTRY'S FOUR LARGEST BANKS (A SIGNIFICANT SOCIALIST RETREAT, HOWEVER, FROM THEIR ORIGINAL DEMAND FOR THREE OFFICIAL DELEGATES ON EACH OF THE BANKS' MANAGEMENT BOARDS, WHICH HAVE ACTUAL RESPONSIBILITY FOR OPERATIONAL POLICY). AN AS YET UNCHOSEN SEMI-OFFICIAL FINANCIAL INSTITUTION WILL BECOME A FULL BANK.

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6. OTHERWISE, AND PARTICULARLY ON THE QUESTION OF GENERAL INDUSTRIAL POLICY, THE NEW GOVERNMENT'S PLANS ARE STILL VAGUE. MID TO LONG-TERM ECONOMIC EFFECTS OF THE REGIONALIZATION PLAN REMAIN TO BE SEEN. ALLUSIONS SO FAR TO REFORMS IN AREAS SUCH AS THE FISCAL TREATMENT OF PRIVATE COMPANIES, INVESTMENT INCENTIVES AND PUBLIC INVESTMENT OR EXPORT PRIORITIES READ PRETTY MUCH LIKE THOSE OF THE EGMONT PLAN. IT IS NOT YET CLEAR WHETHER UNFULFILLED AIDS TO BUSINESS LEFT OVER FROM THE EGMONT PLAN WILL STILL BE SUBMITTED TO PARLIAMENT, ALTHOUGH EYSKENS HAS SAID PUBLICLY THAT THEY WILL. FINALLY, PROSPECTS APPEAR GOOD RIGHT NOW FOR FINAL ABOLITION OF THE BELGIAN 5 PERCENT VAT ON CAPITAL GOODS--BUT, AS IN PREVIOUS YEARS, THE IDEA COULD WASH OUT DURING THE SUMMER BUDGET NEGOTIATIONS. CHAMBERS

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